

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 ABF-01 DODE-00 PM-05 H-01 L-03 PA-01
AGRE-00 CTME-00 /102 W
-----085318 120535Z /14

R 111006Z JUL 78
FM AMEMBASSY TAIPEI
TO SECSTATE WASHDC 8071
INFO AMCONSUL HONG KONG
AMEMBASSY MANILA
USLO PEKING
AMEMBASSY SEOUL
AMEMBASSY TOKYO

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E.O. 11652: N/A
TAGS: EFIN, TW
SUBJECT: ROC REVALUES CURRENCY

1. THE ROC'S MINISTRY OF FINANCE (MOF) ANNOUNCED ON JULY 10 THAT NEW TAIWAN (NT) DOLLAR WOULD BE REVALUED, EFFECTIVE JULY 11. THE NEW EXCHANGE RATE WILL BE NT DOLLARS 361 U.S. DOLLAR. THE EXCHANGE RATE FOR THE SPECIAL DRAWING RIGHT (SDR) WAS ADJUSTED FROM NT DOLLAR 10.021844 SDR TO NT DOLLAR 10.0226554 SDR. AT THE SAME TIME, THE GROC ANNOUNCED THAT IN THE FUTURE, AN "ADJUSTABLE PEG" SYSTEM WILL BE USED, WHICH COULD ENTAIL FREQUENT CHANGES IN THE NT-U.S. DOLLAR EXCHANGE RATE.

2. VICE-MINISTER OF FINANCE WANG CHOU-MING ANNOUNCED THE REVALUATION IN A PRESS CONFERENCE. HE NOTED THAT THE U.S. DOLLAR HAD DEPRECIATED IN VALUE BY OVER 30 PERCENT SINCE
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LAST YEAR, RELATIVE TO THE JAPANESE YEN. HE STATED THAT THE PURPOSE OF THE ROC'S REVALUATION WAS TO STABILIZE IMPORT PRICES, AND TO HELP STEADY THE ECONOMY. FINANCE MINISTER CHANG CHI-CHENG LATER TOLD REPORTERS THAT REVALUATION WOULD HAVE THREE RESULTS: (1) THE RATE OF INCREASE OF EXPORTS WOULD DIMINISH, WHILE IMPORTS WOULD GROW, CAUSING TAIWAN'S INTERNATIONAL PAYMENTS TO BECOME MORE

BALANCED, (2) AS IMPORTS INCREASE, AND THE SUPPLY OF COMMODITIES GROWS, DOMESTIC INFLATIONARY PRESSURES WOULD MODERATE, AND (3) THE PRESSURE ON WAGES WOULD BE REDUCED.

3. ACCORDING TO SOURCES IN THE CENTRAL BANK, UNDER THE "ADJUSTABLE PEG" SYSTEM THE GROC HAS DEVISED A FORMULA FOR CALCULATING THE PURCHASING POWER OF THE NT DOLLAR, BASED ON COMPARISONS WITH THE JAPANESE, U.S., AND SOUTH KOREAN CURRENCIES. THE TERMS OF THE FORMULA HAVE NOT BEEN DISCLOSED. A COMMITTEE WILL BE FORMED, WITH PARTICIPATION FROM THE CENTRAL BANK OF CHINA AND THE MOF, FOR THE PURPOSE OF MONITORING THE NEW FORMULA AS WELL AS OTHER FINANCIAL DEVELOPMENTS, AND RECOMMENDING ANY NEEDED ADJUSTMENTS IN THE EXCHANGE RATE. A CENTRAL BANK OFFICIAL TOLD EMBASSY THAT ACCORDING TO THE FORMULA, THE NT DOLLAR SHOULD HAVE BEEN ADJUSTED TO NT DOLLARS 341 U.S. DOLLAR, BUT TO AVOID INJURY TO EXPORTERS, A LESSER APPRECIATION WAS CHOSEN. HE STATED THAT ALTHOUGH THE AMOUNT OF THE REVALUATION WAS NOT GREAT, IT WOULD PROBABLY HAVE A PSYCHOLOGICAL IMPACT ON EXPORTERS, WHO ARE NOW ON NOTICE THAT THE RATE COULD BE ADJUSTED AGAIN. HE EXPECTED THAT EXPORTS WOULD SLOW DOWN AS A RESULT OF THE ADJUSTMENT. THE GROC HAS NOT YET DECIDED HOW OFTEN THE EXCHANGE RATE MAY BE ADJUSTED.

4. U.S. AND LOCAL BANKERS ALIKE FEEL THAT THE 5.2 PERCENT APPRECIATION WILL NOT HAVE MUCH EFFECT ON EXPORTS. ONE LIMITED OFFICIAL USE

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AMERICAN BANK BRANCH MANAGER STATED THE ADJUSTMENT EVIDENCED A "FLEXIBLE ECONOMIC MANAGEMENT, FINE-TUNING THE ECONOMY."

5. EXPORTERS OF TEXTILES FEEL UNEASY ABOUT THE NEW SYSTEM. SOME COMPANIES INDICATED TO EMBASSY THAT THEY MIGHT TRY TO RAISE THEIR PRICES 10 PERCENT SO AS TO COVER A FUTURE APPRECIATION. EXPORTERS OF MAN-MADE TEXTILES, PARTICULARLY SMALL COMPANIES, MAY BE HIT HARD BY THE REVALUATION, BUT EXPORTERS WHO RELY HEAVILY ON IMPORTED MATERIALS (E.G., COTTON TEXTILES) ARE NOT AS WORRIED, AS THEY CAN PASS ALONG SAVINGS IN IMPORT COSTS. EXPORTERS OF ELECTRONIC PRODUCTS, MOSTLY FOREIGN-INVESTED COMPANIES, DO NOT FEEL THE APPRECIATION WILL AFFECT THEM SIGNIFICANTLY.

6. CHIEF BENEFICIARY OF THE REVALUATION WILL BE THE CHINESE PETROLEUM CORPORATION (CPC), WHICH HAS FOR SEVERAL MONTHS UNSUCCESSFULLY ATTEMPTED TO RAISE ITS SELLING PRICES. CPC PURCHASED ABOUT U.S.\$1.25 BILLION WORTH OF FOREIGN OIL LAST YEAR.

COMMENT: IT DOES NOT SEEM LIKELY THAT A 5 PERCENT REVALUA-

TION WILL SIGNIFICANTLY REVERSE THE U.S.-ROC TRADE DEFICIT.
IN FACT, IT COULD HAVE THE OPPOSITE EFFECT, IF AND WHEN THE
GROC'S PROPOSED REVISION IN IMPORT REGULATIONS BECOMES
EFFECTIVE. UNDER THIS PROPOSAL, RESTRICTIONS WHICH NOW BAR
THE IMPORTATION FROM JAPAN OF SOME 800 ITEMS WOULD BE
ABOLISHED, LEAVING IMPORTERS FREE TO PURCHASE JAPANESE
GOODS. UNGER

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